

Talking About Money



No.1

EXPLAINING CASH FLOW AND SAVINGS

by
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2005

Updated 2009

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Food and Agriculture Organization of the United Nations
Rome
Italy



Introduction

This booklet is part of a series that is designed to be used by farmer discussion groups, farmer field schools and extension or advisory officers involved in agricultural or rural development.

The ability to adopt or introduce changes to agricultural production methods and non-farm enterprises depends on the availability of money. It is, therefore, very important for farmers to be able to think carefully about their financial circumstances. Predicting costs, prices, profit margins and cash flow patterns is vital for planning and decision-making and the poorer the farmer, the more important it is.

These concepts need to be explained in a way which small scale, possibly illiterate, farmers can understand. The "Talking About Money" booklets aim to introduce financial topics to farmers using a variety of tools, some of which can be used even when people are not able to read or write. The concepts are intended to provoke discussion and be used in a participatory manner.

Field officers involved in giving agricultural advice in developing countries are most commonly technical experts of some kind, e.g. agronomists, livestock, irrigation or engineering specialists. They usually do not have much experience in giving advice about money and this topic is generally avoided, apart perhaps from some simplified profit calculations. It is hoped this series will help them "talk about money" more readily and enable them to give good advice to farmers about the use of financial services such as credit.

A selection of cash flow budget layouts and the planning forms can be downloaded from the library section of the Rural Finance Learning Centre. Follow the links to Client Advice and then Money Management and look for the title of this booklet in the list.

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1 WHY IT IS IMPORTANT TO TALK ABOUT MONEY

Aim

- To help everyone understand the role of money in our lives.
- To introduce the idea of managing money, saving it, borrowing it, deciding how to spend it.

Using money

We all need money. Even if we produce a lot of our own food we will still need money for clothes, shoes, salt, light, soap, travel, medicines, tools and many other small things. Money is so easy to carry around and can be exchanged for any thing that is for sale.



Why not list everything you bought with money in the last week? You can think about it in your head or write it down.

Of course if we spent money we must have got it from somewhere. Money coming in to our lives (*income*) may result from selling things we have collected or produced, or payments for services we have supplied to people. We may get wages by working for other people or we may charge people for the use of our assets. Income is often shared within a family through gifts or remittances.



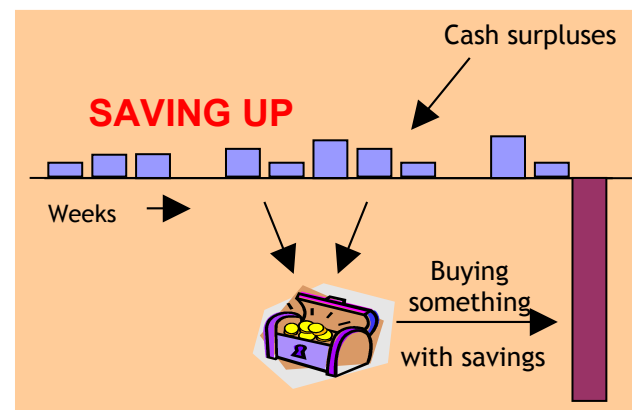
Perhaps you would like to stop and think about where you got money from in the last week.

It is possible you did not have any money income last week. How then were you able to buy anything that required money?

Saving money

Most probably you had some savings. We save whenever we do not spend all the money we have at a certain moment and put the unspent amount safely somewhere until we need it.

Here is a diagram that represents this:



In poor, rural families incomes are irregular and small and there are many times a rural family needs more money than it has in hand. This is especially true when someone needs to buy inputs for crop growing for instance or for a major family event like a wedding or if they want a bicycle or buffalo.

The main *problem* is that it is hard to find a safe place to store savings if you're poor. People also have to be very self-disciplined to save.



Where do you keep your cash savings? Make a list of all the possibilities with the others in your discussion group.

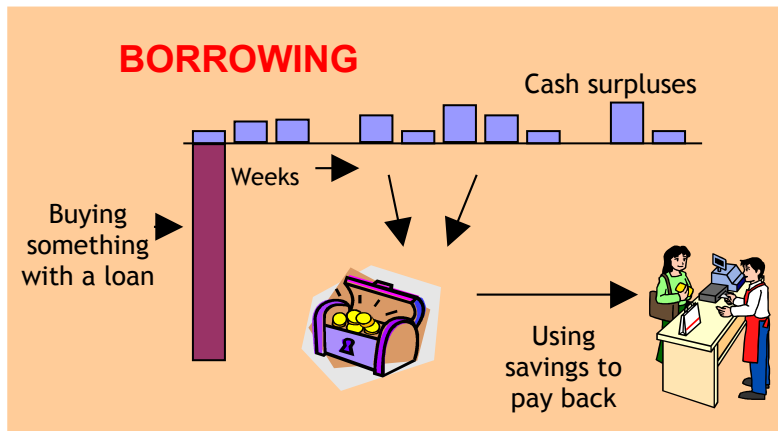
Later on we will look at different ways of saving.

Borrowing money

What if we haven't any savings and we need to buy something important? If we are lucky someone may give us some money to help out. Friends and relatives often help out in this way. Of course they expect us to reciprocate when they are in trouble!

The other option is to borrow some money. This means finding someone willing to give us a sum of money that we can use now and saving up afterwards until we can repay it. We could call this "saving down" because, although we solve our problem by borrowing money, we still have to save!

Here is a diagram to describe this:



The main *advantage* of borrowing is that if we spend the lump sum on something that will increase our income, we may find it easier to save up.

The main *problem* is that it is hard to find someone to give you an advance if you're poor. Secondly, you incur an obligation. You are "tied" to the person who lends you the money and you may have to pay a charge for the loan - we call that interest.

Which do you think is better?



Try to list all the advantages and disadvantages of:

- saving up
- borrowing

What did you decide? Many people think saving up is better because the sum you accumulate is free of any obligation. You do not owe anybody anything. However, people often think they cannot save, that they are too poor and have no choice other than to borrow.

One thing is certainly true - whether you decide to "save up" or "borrow", you have to SAVE!

Understanding cash flow

It is clear that money helps us to manage our lives. We can store it, carry it around with us and use it to buy things we need. It becomes a problem when we don't have any. To avoid this we need to plan, to understand where we get money from and when and to be able to decide what we spend it on and when. We need to understand our cash flow.

Cash flow is a very simple concept. It simply means the pattern of money coming in and going out of your life.



IN



OUT



We can look at the pattern for a day, a week, a month or a year. The difference between what comes in and what goes out determines whether we have a surplus we can save or whether we have a deficit we need to cover by using savings or borrowing.

Money coming in (*income*) usually results from the sale of goods (crops, livestock, wood, processed food, etc.) or services (ploughing, bicycle repair, sewing, etc.) but it may also result from employment wages, gifts, rent, remittances from other family members, etc.

Money going out (*expenses*) will include family expenses, e.g. for food, clothes, furniture, medicine, fuel, school fees, ceremonies, travel, and business expenses, e.g. for fertiliser, seeds, pesticides, equipment, livestock, vaccines, tools, goods for resale, wages, etc.

Let's start to build a pattern of our own cash flow. We will begin with a tree. Trees depend on water - they draw it in through their roots and it moves up the tree and evaporates from the leaves. We can envisage money moving through our lives in the same way.

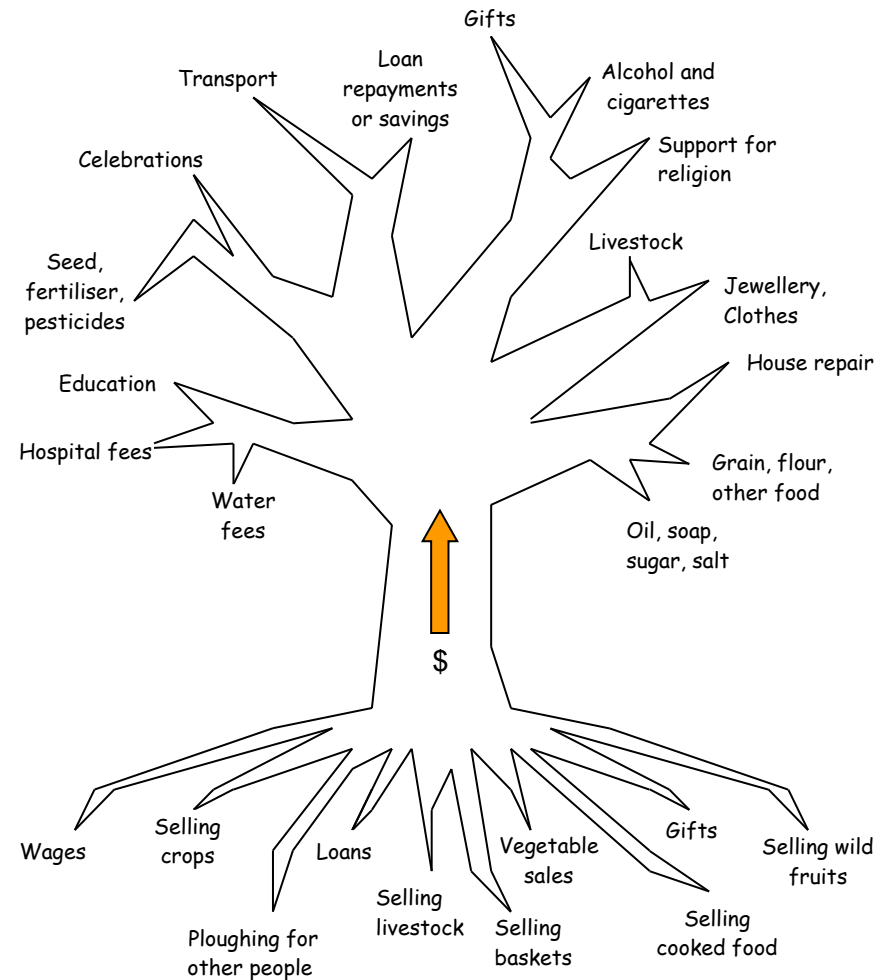


First draw a tree with lots of roots and branches.

Now label all the roots with different ways you and your family get money and all the branches with different ways you spend money. Put the most essential expenditure on the lower branches.

You can use pictures or objects instead of words.

Here is an example cash flow tree:





Time for a discussion:

Compare your cash flow trees.

- Discuss the different types of expenditure and how each of you decides what to spend money on.
- Are there differences between the cash flow trees of men and women? How does this affect the household?
- Which sources of income are most important and reliable?
- Are there some types of expenditure you can do without?
- Does anyone plan savings or does it just happen that you find you have accumulated some surpluses?
- How do you know if you can save up enough to invest in a new enterprise or improved farm inputs?

2 CASH FLOW PLANNING

Aim



- To learn how to prepare cash flow forecasts which show when money is likely to be received or spent.
- To discuss the importance of using numbers and learn how a calculator helps.
- To see how we can predict if we will be able to save and when we would be able to buy something we want.

Seasonal cash flow calendar



First prepare the layout of columns and rows and divide it into two. The top half will represent money in and the bottom half money out. The vertical columns can represent weeks or months and can start and end whenever it seems logical in relation to the seasons.

It should look something like this:

| | | | | | | | | | |
|---|--------------|-----|-----|-----|-----|-----|-----|-----|-----|
|  | ↑ | | | | | | | | |
| C a s h I N | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | Month | Jan | Feb | Mar | Apr | May | Jun | Jul | ... |
| C a s h O U T | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
|  | ↓ | | | | | | | | |

Now you should work in pairs or small groups and one person will volunteer to answer questions about his or her cash flow. The questioners will ask: "What things do you sell? When? Do you sell it just one time or several times? When do you buy fertiliser? And so on..."

When an item is mentioned, you should label the row, e.g. eggs as a source of cash IN, fertiliser as a type of cash OUT. You can use pictures, symbols or words to label the rows.

Then the person answering the questions should put some grain, beans or stones in each square to mark when they expect to receive or spend money. They should vary the number of stones or grains to represent bigger or smaller amounts.

Working in numbers

The seasonal cash flow calendar and cash balance chart have helped us examine someone's cash flow and see whether there are times when they experience cash deficits and times when they can save.

However, to start planning properly, it is essential to start using numbers. Only then can we answer questions such as:

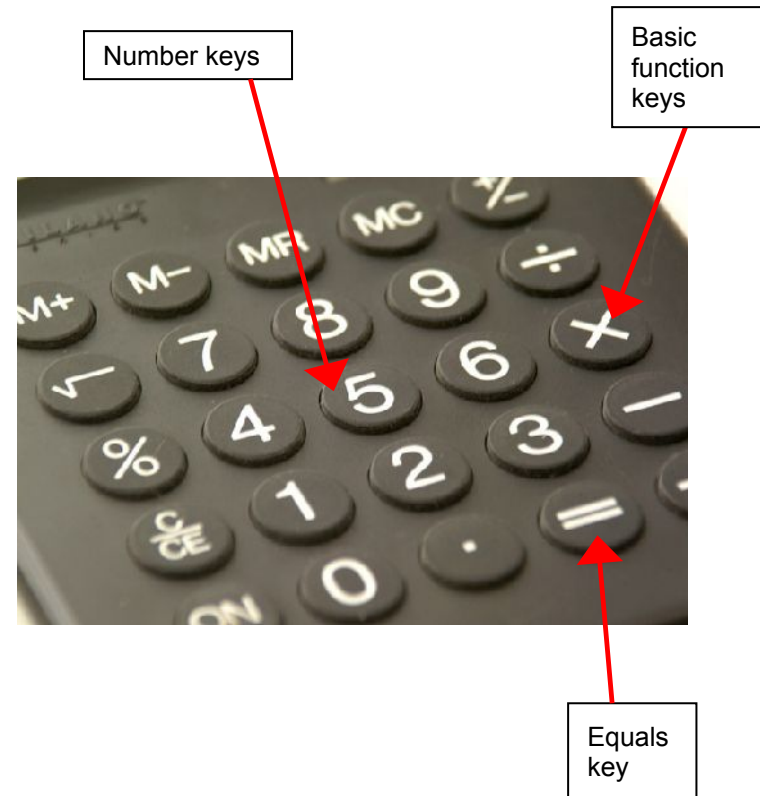
- Can I afford to buy fertiliser? How much can I afford?
- How long would it take to save up for a bicycle?
- How much do I need to borrow to pay the school fees? When will I be able to pay the loan back?
- Can I save up enough to clear an old debt?

Do some of you have problems reading and writing numbers? If you do you should stop here and get someone to give you some simple lessons. Try and find an organisation that can arrange literacy classes or get hold of some learning materials which your group leader or facilitator can use. There are some suggestions at the back of this booklet.

When you can read numbers, you can practise adding and subtracting money as well as multiplying quantities by prices. To help you do this you should get hold of a simple calculator.



You will only need to use the number keys and the basic functions of add, subtract, multiply and divide, together with the equals key to get the answer:



Study groups and farmer field schools should use some of their funds to buy calculators for their members. They will make preparing a cash flow much easier.

Everyone should practise simple sums such as the ones on the following page.



| | | |
|--------------------|---------------|--------------------|
| <i>Addition</i> | Seeds | 325.00 |
| | Watering can | <u>+ 990.00</u> |
| | Costs | 1,315.00 |
| <i>Subtraction</i> | Income | 15,780.00 |
| | Expenses | - <u>10,435.00</u> |
| | Profit | 5,345.00 |
| <i>Multiplying</i> | Yield in kg. | 200 |
| | Price per kg. | x 155 |
| | Income | = 31,000 |

When you can do sums like these you are ready to start writing a cash flow plan with numbers, which can help you decide when to buy things and if you can save up enough.

A cash flow story

Let's start by making a very simple cash flow plan for the people in this story.

Mary and Daniel live in Nchelenge district in the Northern Province of Zambia. Mary earns cash income from selling cassava and Daniel is a fisherman. They have a few chickens and two goats. Their three children are attending school.

They would like to buy new furniture for their house this year, which will cost 600, and they are wondering whether they can afford it, and when is the best period to make the purchase.

Here is the form we are going to fill in:

| | | CASH FLOW PLAN | | | | | | | | | | | | | |
|---|--|----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------|--|
| | | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | Total | |
| INCOME: | | | | | | | | | | | | | | | |
| EXPENSES: | | | | | | | | | | | | | | | |
| MONTHLY BALANCE | | | | | | | | | | | | | | | |
| Add positive balances and subtract negative balances from the running total to work out savings | | | | | | | | | | | | | | | |
| SAVINGS | | | | | | | | | | | | | | | |



Now get somebody to read out these figures which have been collected from Daniel and Mary, while the rest of the group write them in the blank cash flow sheet. (You can call the amounts what currency you like.)

INCOME:

Daniel expects the following income from selling fish:

500 in March, April, October and November
400 in May and September
300 in June
100 in July and
200 in August

Mary usually gets money from cassava in the following months:

120 in January
100 in February, August and September
200 in June

They often sell some livestock in the rainy season and may get:

200 in January
100 in December

EXPENSES:

Every month they need 200 to cover their living expenses.

They need money for school fees in the following months:

150 in April
200 in August and
400 in December

Daniel needs money for boat and net maintenance:

100 in March
150 in May and July
300 in November

When you have done this, subtract the expenses from the income each month to work out the monthly balances.

Sometimes this will be positive, sometimes it will be negative if income is less than expenses. It might be zero if income exactly equals expenses.

Finally you should work out how Daniel and Mary's savings grow by creating a running total on the bottom line. Add positive balances together and subtract negative balances from the total.

(The answer is on the next page)



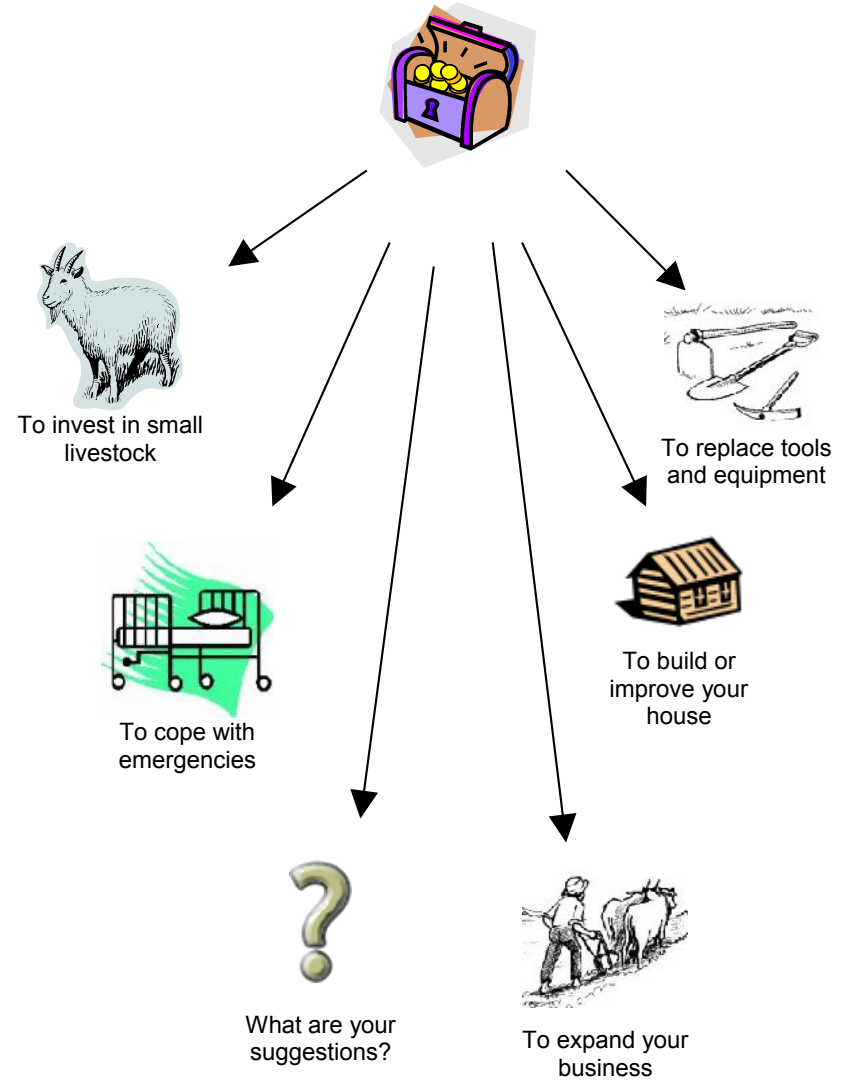
Time for a discussion:

- *In which months can Daniel and Mary save?*
- *What would they do in February if they did not save the surplus from January?*
- *How much will they have saved by the end of the year?*
- *When will Daniel and Mary have enough to spend 600 on the furniture they want?*
- *What problem will they face if they buy it in June?*
- *In which month can they buy the furniture and still have enough saved for emergencies?*
- *Will they be able to pay the school fees in December if they buy the furniture?*
- *What advice would you give to Mary and Daniel on the basis of their cash flow plan?*

CASH FLOW PLAN

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | Total |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| INCOME: | | | | | | | | | | | | | |
| Sales of fish | | | 500 | 500 | 400 | 300 | 100 | 200 | 400 | 500 | 500 | | 3400 |
| Cassava | 120 | 100 | | | | 200 | 100 | 100 | | | | | 620 |
| Small livestock | 200 | | | | | | | | | | | 100 | 300 |
| EXPENSES: | | | | | | | | | | | | | |
| Living expenses | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 2400 |
| School expenses | | | | 150 | | | | 200 | | | | 400 | 750 |
| Net / boat maintenance | | | 100 | | 150 | | 150 | | | | 300 | | 700 |
| MONTHLY BALANCE | + | - | + | + | + | + | - | - | + | + | 0 | - | + |
| | 120 | 100 | 200 | 150 | 50 | 300 | 250 | 100 | 300 | 300 | 0 | 500 | 470 |
| <i>Add positive balances and subtract negative balances from the running total to work out savings</i> | | | | | | | | | | | | | |
| SAVINGS | 120 | 20 | 220 | 370 | 420 | 720 | 470 | 370 | 670 | 970 | 970 | 470 | |

Discussion picture: WHY SHOULD I SAVE?



This cash flow story has shown how important savings are to cope with months without sufficient income to cover expenses. Savings are also essential to deal with unplanned expenses or emergencies. Look at the discussion poster and share your experiences of how savings or a lack of savings has affected your life.

What did you make of Daniel and Mary's situation?

Daniel and Mary could buy their furniture in June but then they will not have enough to cover the next month's expenses. If they wait until September, they will manage but have very little in reserve. October is best but they will be short of money in December and will end the year without any savings.

3 MAKING A CASH FLOW PLAN

Aim:

- To ensure that each person is able to prepare his or her own cash flow plan.

Getting started

Can you all see how making a cash flow plan helps you to see what you can do with your available cash income and when? It is quite difficult to produce your own cash flow plan and you need to be convinced that the effort is worthwhile.

You will need a blank cash flow form, a pencil, eraser and calculator. You may also want some of the planning sheets which are described in this section. Ask someone with a computer to print copies for you from the Rural Finance Learning Centre (details are at the end).

You must first decide how many weeks or months you are going to plan and when the plan should start. The plan can start at any time, e.g. July or November.

If it is possible to complete twelve months, this will give a good idea of your ability to save at different times of the year. However, cash flow planning forms are available for one month, four months and six months, as well as twelve months. You can use any combination of these for your plan. It is sometimes easier to use two six month forms to complete a year. There is an example of a six month cash flow planning form on the next page.

It may be a good idea to work in small groups and do one cash flow at a time, discussing it together as you go. It is important to try and show each person's own personal situation as accurately as possible. However there is likely to be a lot of guesswork needed and this is quite OK - all budgeting is guesswork.



1. *Write in the names of the months on the form you are going to fill and put your name and which year we are in at the top.*
2. *Next you must think of all the sources of cash income that you anticipate in the plan period. If you made a cash flow tree, this should help you remember. Think of everything you are going to sell, any cash wages you may earn, money someone in the family may send back from the town, rent you may receive, and list them in the "money coming in" section.*
3. *Now take each of your income-generating activities in turn and identify the inputs that have to be bought with money, listing them under business inputs in the left hand column. This includes seeds and fertilisers for crops, feed for livestock and any things you buy to resell. You may have to have groups of items, e.g. seeds rather than maize seed, vegetable seed, etc.*
4. *If you plan to buy any capital equipment, e.g. tools, list that and any other items.*

| Name: | CASH FLOW PLAN | | | | | | | | | | | | Year: |
|--------------------------------|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Month: | Month: | Month: | Month: | Month: | Month: | Month: | Month: | Month: | Month: | Month: | Month: | Month: |
| MONEY COMING IN | | | | | | | | | | | | | |
| Sales of: | | | | | | | | | | | | | |
| <i>Wages</i> | | | | | | | | | | | | | |
| <i>Remittances</i> | | | | | | | | | | | | | |
| <i>Other sources:</i> | | | | | | | | | | | | | |
| TOTAL (A) | | | | | | | | | | | | | |
| MONEY GOING OUT | | | | | | | | | | | | | |
| Farm / business inputs: | | | | | | | | | | | | | |
| <i>Seeds</i> | | | | | | | | | | | | | |
| <i>Fertiliser</i> | | | | | | | | | | | | | |
| <i>Poultry feed</i> | | | | | | | | | | | | | |
| <i>Vaccines</i> | | | | | | | | | | | | | |
| <i>Pesticides</i> | | | | | | | | | | | | | |
| <i>Jars</i> | | | | | | | | | | | | | |
| <i>Transport</i> | | | | | | | | | | | | | |
| Capital equipment: | | | | | | | | | | | | | |
| <i>Honey extractor</i> | | | | | | | | | | | | | |
| Household expenses | | | | | | | | | | | | | |
| Other expenses | | | | | | | | | | | | | |
| <i>Water fees</i> | | | | | | | | | | | | | |
| TOTAL (B) | | | | | | | | | | | | | |
| MONTHLY BALANCE (A - B) | | | | | | | | | | | | | |
| SAVINGS | | | | | | | | | | | | | |
| Savings at start: | | | | | | | | | | | | | |

Here is an example of how your plan will look at this stage:

CASH FLOW PLAN

Name: *Chance Mubanga*

Year: *2009*

| MONEY COMING IN | Month: <i>May</i> | Month: <i>June</i> |
|--|-------------------|--------------------|
| Sales of: | | |
| <i>Groundnuts</i> | | |
| <i>Tomatoes</i> | | |
| <i>Honey collection</i> | | |
| <i>Chickens</i> | | |
| <i>Firewood</i> | | |
| Wages <i>Casual work</i> | | |
| Remittances <i>from Joseph</i> | | |
| Other sources: | | |
| <i>Hiring out oxen</i> | | |
| TOTAL (A) | | |
| MONEY GOING OUT | | |
| Farm / business inputs: | | |
| <i>Seeds</i> | | |
| <i>Fertiliser</i> | | |
| <i>Poultry feed</i> | | |
| <i>Vaccines</i> | | |
| <i>Pesticides</i> | | |
| <i>Jars</i> | | |
| <i>Transport</i> | | |
| Capital equipment: | | |
| <i>Honey extractor</i> | | |
| Household expenses | | |
| Other expenses | | |
| <i>Water fees</i> | | |
| TOTAL (B) | | |
| MONTHLY BALANCE (A - B) | | |
| SAVINGS | | |
| Savings at start: ... <i>6,500</i> ... | | |

Working out the numbers

This is the interesting part. You have to work out how much money you expect to receive or spend and when. How can you do that?

The first way is just to guess the amount based on what you can remember from the past. This is OK up to a point and better than nothing. However, you may want to try and get more accurate estimates.

Income from traded goods

It may help to estimate the quantity of traded goods which may be sold each month and multiply it by an estimated price. You could use the TIME PLAN FOR SALES shown on the next page. This is how you fill it in:

- Note down the plan period, e.g. October 2009 - March 2010
- Estimate how much will be produced and sold from the farm enterprises during the plan period, based on past experience.
Here is an example for two enterprises:

| Product → | Rice | Chickens |
|---|---------|----------|
| Estimated total production during this plan period (A) | 7000 kg | 75 |
| Amount(s) to be consumed or retained for next production cycle, e.g., as seed (B) | 2200 kg | 20 |
| Amount to be sold (A-B) | 4800 kg | 55 |

- Estimate the production from farm-based processing or trading activities.
Here is one example:

| Activity | Quantity to be sold | | In which months? |
|----------------|---------------------|------------|------------------|
| | Weekly | Monthly | |
| Oil extraction | 125 litres | 500 litres | April - November |

Cash flow planning forms

Talking About Money No. 1

TIME PLAN FOR SALES Plan period: from _____ to _____

OUTPUT INFORMATION
1. Seed production, crop production, fish ponds, poultry, tree nursery, etc.

Name of Product →

| Estimated total production during this plan period (A) | Amount(s) to be consumed or retained for next production cycle, e.g., as seed (B) | Amount to be sold (A-B) | Quantity to be sold | | In which months? |
|--|---|-------------------------|---------------------|---------|------------------|
| | | | Weekly | Monthly | |
| | | | | | |
| | | | | | |
| | | | | | |

2. Other production or trading activities, e.g., rice mill, oil press, basket making, bakery

| Activity | Quantity to be sold | | In which months? |
|----------|---------------------|---------|------------------|
| | Weekly | Monthly | |
| | | | |
| | | | |
| | | | |

Now list amounts of each item to be sold each month of the plan period and expected price that month. Remember that prices may change through the year.

| Month: | Month: | | Month: | | Month: | |
|--------|------------|--------|------------|--------|------------|--------|
| | Price/unit | Amount | Price/unit | Amount | Price/unit | Amount |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

4. Estimate the amounts to be sold each month and the likely market price. Remember to take into account seasonal variations in prices.

Here is an example of just two months from the October - March plan period (we have omitted the currency unit):

| Month: <i>November</i> | | Month: <i>December</i> | |
|------------------------|----------------------|------------------------|--------------------|
| Amount | Price/unit | Amount | Price/unit |
| <i>500 kg rice</i> | <i>2,100 / kg.</i> | <i>1,000 kg rice</i> | <i>1,900 / kg.</i> |
| <i>10 chickens</i> | <i>10,000 each</i> | <i>12 chickens</i> | <i>12,000 each</i> |
| <i>500 litres oil</i> | <i>5,000 / litre</i> | | |
| | | | |

Once you have this information, you will be able to return to the cash flow form and enter the cash you expect to receive, e.g.:

Put the currency unit here

| MONEY COMING IN \$ | Month: <i>Nov</i> | Month: <i>Dec</i> |
|---------------------------|-------------------|-------------------|
| Sales of: | | |
| <i>Rice</i> | <i>1,050,000</i> | <i>1,900,000</i> |

500 kg x 2,100 / kg
1000 kg x 1,900 / kg

Remember to be realistic! If you say something will happen in May, it really should be expected to happen in May. And remember that you are only dealing with things you sell, not the total value of things produced.

Income from other sources

Unless you keep records, you will just need to think and estimate these. Why not involve all the family in this?

Expenditure on purchased inputs

It may help to estimate the quantity of each item which may be purchased each month and multiply it by an estimated price. You could use the TIME PLAN FOR INPUTS shown on the next page. This is how you fill it in:

- Note down the plan period, e.g. October 2009 - March 2010
- Think through and note down the main farm activities that involve the use of inputs or employed labour in each month:

| Month: <i>February</i> | Month: <i>March</i> |
|----------------------------|---------------------------------|
| <i>Rice seedbed</i> | <i>Rice transplanting</i> |
| <i>Field cultivation</i> | <i>Base fertiliser dressing</i> |
| <i>Poultry vaccination</i> | |

- Prompted by the main tasks each month, estimate the inputs that have to be available at that time and the likely price. (We have omitted the currency unit)

| Amount | Price / unit | Amount | Price / unit |
|------------------------------------|-----------------------|-----------------------------|-----------------------|
| <i>100 kg rice seed</i> | <i>3,000 / kg</i> | <i>250 kg of fertiliser</i> | <i>6,000 per 50kg</i> |
| <i>45 doses of vaccine</i> | <i>2,000 per dose</i> | <i>5 days hired labour</i> | <i>3,750 per day</i> |
| <i>Hire of bullocks and plough</i> | <i>10,000</i> | | |

Once you have this information, you will be able to return to the cash flow form and enter the cash you expect to spend, e.g.:

| MONEY GOING OUT \$ | Month: <i>Feb</i> | Month: <i>March</i> |
|---------------------------|-------------------|---------------------|
| Farm / business inputs: | | |
| <i>Seeds</i> | <i>300,000</i> | |

100 kg x 3000 / kg

Once again, don't forget to be as realistic and accurate as possible. There is no point in doing this unless it really represents your own individual situation. Everybody's cash flow plans will be different.

Working out the balances

When all the numbers have been entered and you have added up the total amount of money coming in and going out each month, the next step is to work out the monthly balance for each time period in the budget. You do this by subtracting the total money going out from the total money coming in. It may be a negative or positive figure.

Then you need to work out the cumulative balance of money coming in and out. When this figure is positive it represents what can be kept as savings in that month. If it is negative you have a problem to solve, which may involve borrowing or simply changing your spending plans.

Before you start working out the cumulative balance, you should enter the amount of savings that you have at the start of the plan, in the left hand column. Then you calculate the savings figure for the first month by adding or subtracting the monthly balance from this figure. You repeat this process across the budget, like this:

| | Jan | Feb | Mar | Apr |
|------------------------------|----------|----------|----------|---------|
| MONTHLY BALANCE (A-B) | - 20,000 | - 40,000 | + 35,000 | +50,000 |
| SAVINGS | | | | |
| Savings at start: 50,000 | 30,000 | - 10,000 | 25,000 | 75,000 |

| | | |
|----------|----------|----------|
| + 50,000 | + 30,000 | - 10,000 |
| - 20,000 | - 40,000 | + 35,000 |

Now you have completed your cash flow plan!



Time for a discussion:

- *Look at the pattern of your monthly balance and savings. Is the savings line increasing? This means that you can build up some cash savings and you will need to decide what you are going to do with it. Will you invest it or keep it somewhere or lend it to someone else?*
- *If there is a negative figure in the SAVINGS line in any month, you have to do something about it as it is not possible to have negative savings! You will have to plan to get extra income in that period, e.g., you could try to do some extra work for wages or sell some livestock, or you could delay buying something until the next month to reduce expenses. Another solution is to borrow some money from someone else. This is an important decision as it will carry a commitment to repay with interest (see Book 2 in this series).*
- *Ask yourself “what if?” questions, e.g., what if a price is lower than you predicted or what if the yields are lower than you anticipate? The whole point of planning is to be prepared to deal with changes and problems if they arise. Lower prices or yields mean less income - how would you cope with that?*
- *Controlling or tracking cash is very difficult. Small family businesses do not usually distinguish between household and business uses of cash and it is easy to withdraw more money for personal or household use than the business can support. This can lead to problems when trying to meet further business expenses or repay loans. How do you think a cash flow plan can be used to help you avoid this problem?*

4 MONEY MANAGEMENT

Aim:

- To be able to separate and manage business and family spending requirements.

Business and family spending

In your last discussion you may have considered the problem of controlling your cash expenditure. It is very difficult in a family business where the cash income is used both for family and business requirements. Remember the cash flow tree? How do you control which branch the money flows to?

We really need to think of the tree splitting into two like the one on the next page. If you do not let enough cash go up the left branch to meet essential business expenses, this will gradually reduce your income. We can think of the majority of this money as "working capital" and reducing working capital always reduces production and the possibility of making a profit.

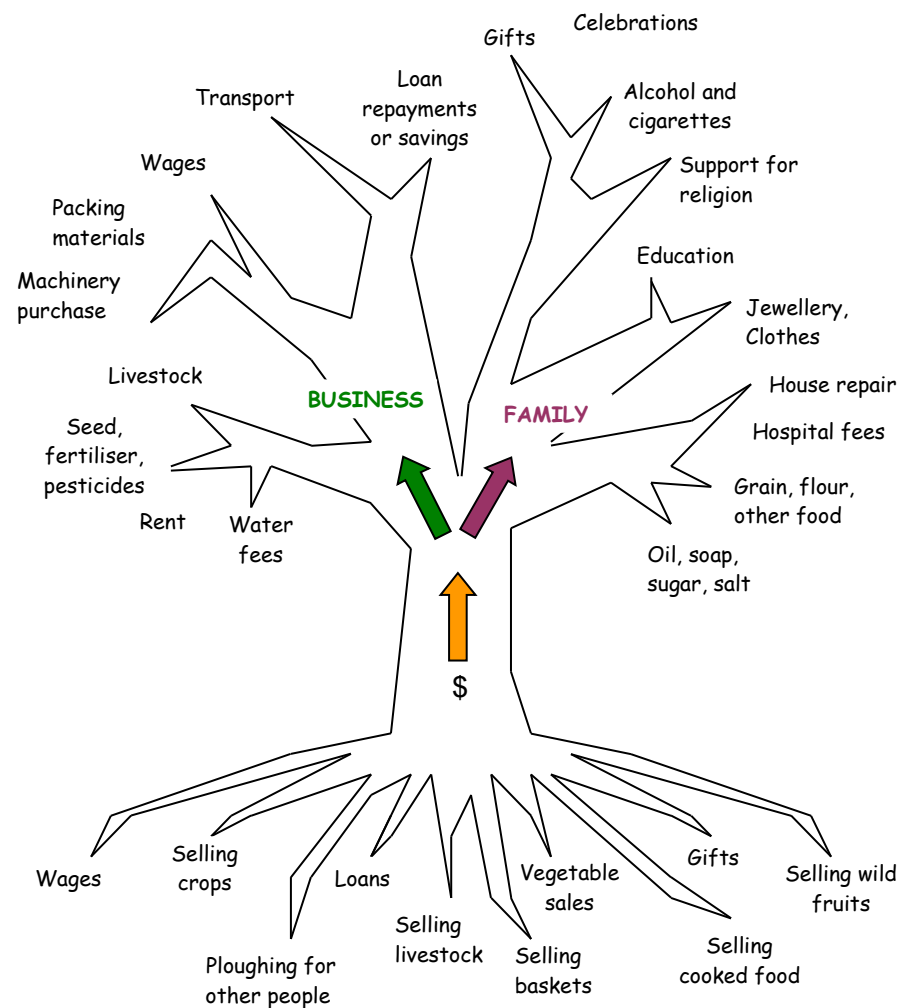
Family spending should come from profit not from working capital. In Book 2 of this series we will look at ways of working out how much profit we are making, which will help us know how much we can spend on family needs. However, when we receive some cash income we do not know if it is profit or not.



Perhaps you can stop and think about how you could decide if you can use some cash income for family spending or not.

Setting a weekly or daily limit on household and family spending is one idea. If your cash flow plan shows you can achieve positive balances after meeting your anticipated household expenditure, that gives you a good idea what you can afford to spend.

A cash flow tree with business and family spending separated.



Weekly money management system

In order not to run short of working capital, you could consider using the following planning system to work out how much you can afford to spend on family expenses.

The idea is to work out how much cash you have at the end of each week after meeting all your business expenses. From this amount you need to be able to meet your working capital requirements in the following week, as well as loan repayments if any. Then the remaining amount is available to meet family spending needs or can be kept as savings. The calculation is like this:

CASH AVAILABLE FROM MY BUSINESS AT THE END OF THE WEEK

minus

CAPITAL REQUIRED FOR THE BUSINESS NEXT WEEK

minus

LOAN REPAYMENTS (if any)
(what I must put aside this week)

equals

MONEY I HAVE LEFT FOR THE FAMILY

minus

SAVINGS (what I want to save this week)

leaves

MONEY FOR FAMILY TO SPEND

| | |
|---|----------|
| | A |
| - | B |
| - | |
| = | |
| - | |
| = | |

The form on the next page can be used keep track of business receipts and payments each week. Transfer the capital set aside for the business next week to the box at the top (B), then at the end of the week you add the total receipts, subtract the business payments and work out how much cash is left (A). Then you can repeat the calculation above.

WORKING CAPITAL

Money for my business put aside last week

RECEIPTS

Money I have collected from selling things this week

| DAY | DAILY INCOME | | \$ |
|-------|--------------|---|----|
| | | | |
| | | + | |
| | | + | |
| | | + | |
| | | + | |
| | | + | |
| | | + | |
| TOTAL | | = | |

PAYMENTS FOR STOCK / MATERIALS

Things I have bought to use or sell in my business

| DAY | WHAT WAS BOUGHT | | \$ |
|-------|-----------------|---|----|
| | | | |
| | | + | |
| | | + | |
| | | + | |
| | | + | |
| TOTAL | | = | |

OTHER BUSINESS EXPENSES / CAPITAL PURCHASES

| DAY | DETAILS | | \$ |
|-------|---------|---|----|
| | | | |
| | | + | |
| | | + | |
| | | + | |
| | | + | |
| TOTAL | | = | |

CASH AVAILABLE FROM BUSINESS AT THE END OF THE WEEK

| | |
|---|----------|
| | B |
| + | |
| - | |
| - | |
| = | A |

5 METHODS OF SAVING

Aim:

- To compare different methods of saving and understand the role of a financial service provider.

Let's suppose you are able to make regular cash savings. What should you do with it? How will you keep it?



Why not list as many ways you can think of for keeping money as a store of wealth for future use.

Perhaps you came up with some of these ideas:

- Hiding the cash
- Giving it to someone else to keep or use
- Buying jewellery or livestock
- Contributing to a savings club
- Buying trees or land
- Putting cash in a bank or post office
- Buying goods to store



Can you think of some reasons for preferring one method more than another?





One important criterion is whether you can use the savings in a hurry if you need to. Obviously having to sell livestock or land takes time, so those methods are better for longer term savings, although small livestock can be sold quite quickly. Livestock are good because they grow in value and may also provide a food source such as milk, but they can also die and leave you with nothing. Cash does not increase in value if kept at home but it is immediately available for use. On the other hand it can easily be stolen.

So each method has advantages and disadvantages.



Try to compare different methods of saving according to the criteria you think are important.

Prepare a matrix like the one below and rank each saving method by putting different numbers of beans to show how well each criterion applies to each savings method. Put more beans if the saving method scores highly and none if it is not true at all.

| |  Jewellery |  Livestock |  Grain |  Cash at home |
|--|--|--|--|---|
| Stores well | ♦♦♦ | ♦♦♦ | ♦♦ | ♦♦ |
| Improves social status | ♦♦♦ | ♦♦♦ | ♦ | |
| Provides flow of income or food | | ♦♦♦♦ | ♦♦♦♦ | |
| Low risk of theft | ♦♦ | ♦♦♦ | ♦♦♦ | ♦ |
| Easy to use as loan security | ♦♦♦ | | ♦ | |
| Low risk of loss or damage | ♦♦ | ♦ | ♦♦ | ♦♦ |
| Low maintenance cost | ♦♦♦ | ♦ | ♦ | ♦♦♦♦ |
| Divisible into small units for sale or use | ♦ | | ♦♦♦ | ♦♦♦♦ |
| Rises fast in value | ♦ | ♦♦♦ | ♦♦ | |

The examples in this matrix do not include systems of keeping cash savings outside the home. In some places there may not be any method available for doing this other than giving it to a neighbour to keep or use. Where trade is taking place, people generally find ways of organising and keeping cash as a service to others. Shopkeepers, landowners, traders, etc. may all agree to store money for people. Some individuals may make a business out of deposit-taking and charge for their service.

In many communities, people join together to pool some of their savings on a regular basis. The pooled amount is then given to one of the participants, who has the benefit of being able to use a larger sum of money at that moment. At the next meeting, a different person will get the lump sum and the savings thus "rotate" until everyone has benefited from the pooled amount. These rotating savings groups have many different names around the world.



Try to think of all the cash saving mechanisms there are in your locality. Do you use any of them? Which ones do you use and why?

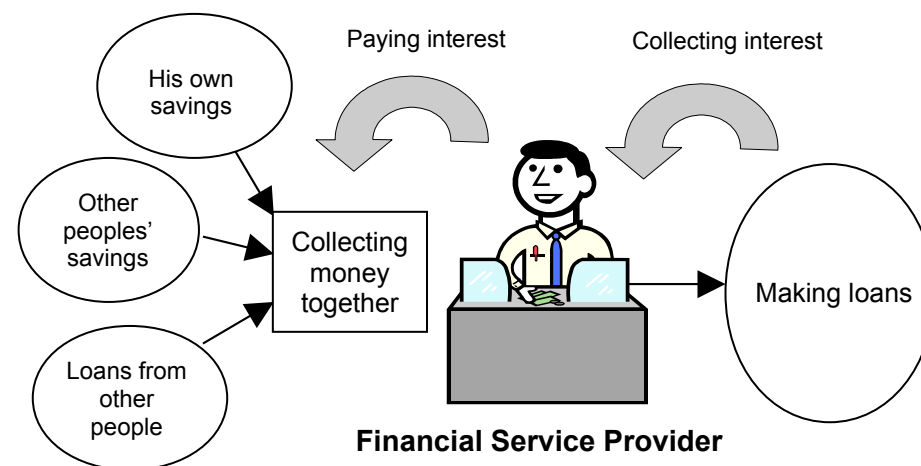
You probably agree that the most important thing that helps you decide whether to join a rotating savings group or give your money to a deposit collector or shop keeper is whether you trust them. You will not want to lose your savings, so you would not give them to somebody whom you do not know, for example.

What other factors are important? Convenience is probably high on your list. It is useful to be able to keep your savings nearby. You may also believe that by giving somebody your savings to keep, you will be able to borrow from them when you don't have any savings left or you need a larger sum of money. You are building a relationship with them.

The role of financial service providers

Being able to save and borrow money is really useful for both family and business needs. Some people make a business out of providing financial services to people, helping some to save and others to borrow.

This is how a financial service provider works:



A money lender may just be using his or her savings to lend to other people. The interest the borrowers pay is the money lender's income.

A bank, however, normally collects savings from other people and lends this money out to different people. They attract people to save by offering to pay them some interest - in effect you lend them your money, so the bank pays you for this and then lends it to other people at a higher price. In this way they cover the cost of paying you and they get a bit extra to compensate themselves for the work involved. The people who save want their money back of course, so borrowers must repay to keep the system going. A bank may even borrow money to lend to other people. It works as long as they collect more interest than they pay. Moneylenders may do this too.

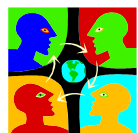
Choosing a safe place to save

As we have already mentioned, you are most unlikely to give your savings to anybody you do not trust. When you are choosing someone within your community to keep your savings, you will rely on your local knowledge of the person or seek the opinion of others. If it is a shopkeeper or trader, your experience of dealing with them is the best indicator of their reliability.

When you are considering a local savings group, it is again a matter of trust between the participants. It is best if you all know each other and have mutual respect. In a rotating savings club, the main risk comes from people dropping out or failing to make their contributions before you have had your turn to receive the lump sum. You have to rely on peer pressure to prevent this happening.

In a savings group that is keeping its members' money and using it to make loans to members, there are new issues of keeping the stored cash safe and preventing it from being stolen by either the group member charged with keeping it or thieves. These will be covered in a later book in this series.

People or institutions providing financial services as a business, need to be carefully evaluated. They should be properly constituted and registered under cooperative or banking law. This means that someone in the government or central bank has a responsibility to check them and make sure they are taking appropriate decisions regarding the deposits they hold. Financial service providers usually lend out the deposits they collect to earn interest and it is important that they do not take excessive risks or make irresponsible investments.



Why not invite the manager of a local financial institution to come and talk to you about how they manage their business? You can ask him how they are supervised and how they manage their lending decisions.

Acknowledgements

The influence of Stuart Rutherford and his book "The Poor and Their Money" (OUP 2000); the diagrams on pages 2 and 3 are based on his work.

The staff of the FAO project "Improving Household Food Security and Nutrition in the Luapula Valley of Zambia" who were involved in developing the cash flow story.

The weekly money management system on page 33 is based on the system developed by the Trident Institute of South Africa for their One-Up Business Training Course.